

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06
COME-00 EB-08 LAB-04 SIL-01 ABF-01 OMB-01 TRSE-00
DHA-02 HEW-04 /092 W
-----211944Z 130985 /43

R 211737Z JAN 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 4949
INFO AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL FRANKFURT
AMCONSUL HAMBURG
AMCONSUL MUNICH
AMCONSUL STUTTGART
USMISSION USBERLIN
AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY ROME
USMISSION EC BRUSSELS
AMEMBASSY THE HAGUE
AMEMBASSY VIENNA
AMEMBASSY STOCKHOLM
AMEMBASSY LUXEMBOURG
AMEMBASSY COPENHAGEN
AMEMBASSY LISBON
AMEMBASSY OSLO
USMISSION GENEVA
AMEMBASSY MADRID

LIMITED OFFICIAL USE SECTION 01 OF 02 BONN 01304

E.O. 11652: N/A
TAGS: ELAB, SOCI, GW
SUBJECT: COALITION AGREES ON ADDITIONAL PENSION
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PROPOSAL

REF: (A) BONN 0765; (B) BONN 20954 (76); (C) BONN
20857 (76); (D) BONN 18431 (76)

SUMMARY: THE NEW LABOR MINISTER, HERBERT EHRENBERG
(SPD), HAS PROPOSED A NEW ADDITIONAL MEDIUM TERM MEASURE TO HELP

RESOLVE THE PROBLEM OF THE FINANCIAL DIFFICULTIES IN THE OLD AGE PENSION FUNDS BY DRAWING ON UNEMPLOYMENT INSURANCE RESOURCES. IN THE PAST, A WORKER'S TIME SPENT ON THE UNEMPLOYMENT ROLLS WAS CREDITED TO WORKING TIME WHEN HIS PENSION WAS COMPUTED DESPITE THE FACT HE DID NOT PAY CONTRIBUTIONS. EHRENBERG'S NEW PLAN, WHICH HAS BEEN APPROVED BY THE SPD/FDP COALITION, REQUIRES THE UNEMPLOYMENT INSURANCE FUND TO PAY THE OLD AGE INSURANCE CONTRIBUTIONS FOR UNEMPLOYED WORKERS AS WELL AS COSTS FOR VOCATIONAL REHABILITATION PROGRAMS. THUS, THE GOVERNMENT ESTIMATES THAT THE OLD AGE INSURANCE FUNDS WILL RECEIVE ABOUT 3.1 BILLION DM OF ADDITIONAL INCOME IN 1979 AND 1980, WHICH WILL HELP RELIEVE THEIR PROJECTED FINANCIAL DEFICITS. IN OUR VIEW, THE PROJECTION IS BASED ON A SOMEWHAT OVER- OPTIMISTIC FORECAST OF UNEMPLOYMENT TRENDS AND UNEMPLOYMENT INSURANCE INCOME; OTHER CORRECTIVE MEASURES WILL BE NEEDED. END SUMMARY.

1. ONE OF THE MAJOR CAUSES OF THE PENSION FUNDS' LIQUIDITY DIFFICULTIES WAS THE SHARP DROP IN EMPLOYMENT ASSOCIATED WITH THE RECESSION IN 1975. CONTRIBUTIONS DROPPED; AT THE SAME TIME EXPENDITURES ROSE SHARPLY AS A RESULT OF 1972 PENSION REFORM LEGISLATION.

2. UNDER FRG SOCIAL SECURITY LEGISLATION, A WORKER'S TIME SPENT ON THE UNEMPLOYMENT ROLLS IS CREDITED TO WORKING TIME WHEN HIS PENSION IS COMPUTED. THE NEW FRG LABOR MINISTER EHRENBERG (SPD) PROPOSED THAT, SINCE LIMITED OFFICIAL USE

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NO SOCIAL SECURITY CONTRIBUTIONS WERE BEING COLLECTED FROM THE UNEMPLOYED, THE UNEMPLOYMENT INSURANCE FUNDS SHOULD BE REQUIRED TO MAKE THOSE CONTRIBUTIONS AND THUS AMELIORATE THE LOSS OF INCOME OF OLD AGE INSURANCE INSTITUTES. BEGINNING IN 1979, EHRENBERG'S PLAN WOULD REQUIRE THE FEDERAL EMPLOYMENT SERVICE (WHICH ADMINISTERS THE UNEMPLOYMENT INSURANCE SYSTEM) TO PAY THE FULL AMOUNT OF OLD AGE INSURANCE CONTRIBUTIONS -- NOW 18 PERCENT -- FOR ALL UNEMPLOYED PERSONS AND TO ASSUME THE COSTS OF VOCATIONAL REHABILITATION PROGRAMS NOW OPERATED BY THE OLD AGE INSURANCE SYSTEM. THE TRANSFER OF THESE MONIES -- ESTIMATED AT DM 3.1 BILLION IN 1979, ABOUT THE SAME IN 1980 -- WOULD COME FROM ANTICIPATED SURPLUSES IN UNEMPLOYMENT INSURANCE FUNDS MADE AVAILABLE BY A DROP IN UNEMPLOYMENT. DURING COALITION NEGOTIATIONS ON JANUARY 13-14, THE SPD/FDP AGREED TO ACCEPT EHRENBERG'S PROPOSALS AS PART OF THE GOVERNMENT PROGRAM TO BE SUBMITTED TO THE BUNDESTAG FOR APPROVAL.

3. THE COALITION PROPOSAL IS BASED ON THE ASSUMPTION
THAT THE UNEMPLOYMENT INSURANCE FUND WILL ACCUMULATE
SURPLUSES OF ABOUT DM 10 BILLION BY 1980 IF UNEMPLOYMENT IN
THE FRG DECLINES IN LINE WITH THE FOLLOWING GOVERNMENT
PROJECTION: 850,000 UNEMPLOYED IN 1977, 775,000 IN

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1978, 700,000 IN 1979, AND 630,000 IN 1980.

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4. COMMENT: THE NEW APPROACH INITIATED BY LABOR MINISTER EHRENBERG REPRESENTS A SOPHISTICATED AND CLEVER MOVE TO FIND A FACE-SAVING WAY OUT OF THE DILEMMA. THIS ATTEMPT AT A SOLUTION FITS IN WITH THE SYSTEM AND IT ALSO APPEARS LOGICAL SINCE WORKERS RECEIVE CREDIT FOR PERIODS OF UNEMPLOYMENT AT THE TIME WHEN THEIR PENSIONS ARE COMPUTED AT RETIREMENT WITHOUT HAVING PAID SOCIAL SECURITY TAXES FOR SUCH PERIODS. THE CONCEPT ITSELF IS NOT NEW; FOR EXAMPLE, FROM 1936-45, THE UNEMPLOYMENT INSURANCE, THE SO-CALLED "REICHSTOCK", WAS ALSO REQUIRED TO GRANT SUBSIDIES TO OTHER SOCIAL SECURITY CARRIERS WHICH WERE UNABLE TO MEET THEIR OBLIGATIONS. THE SUCCESS OF THIS PROGRAM, HOWEVER, DEPENDS ON A NUMBER OF UNCERTAINTIES AND IMponderABLES. GOVERNMENT PROJECTIONS ON THE DEVELOPMENT OF UNEMPLOYMENT APPEAR TO BE OVER-OPTIMISTIC. UNEMPLOYMENT IN 1976 STILL AVERAGED 1,060,000 (4.6 PERCENT) AND THE UNEMPLOYMENT INSURANCE FUNDS OF THE FEDERAL EMPLOYMENT SERVICE IN THAT YEAR REGISTERED A DEFICIT OF OVER DM 2 BILLION WHICH HAD TO BE MADE UP FROM GOVERNMENT FUNDS. THE INCREASE IN UNEMPLOYMENT CONTRIBUTIONS FROM 2 TO 3 PERCENT EFFECTIVE JANUARY 1, 1976, WHICH WAS ORIGINALLY DESIGNED AS A TEMPORARY MEASURE, HELPED TO IMPROVE THE FINANCIAL SITUATION IN 1976. HOWEVER, IN VIEW OF THE NEW COMMITMENTS, A REDUCTION OF CONTRIBUTIONS ORIGINALLY ENVISAGED FOR 1978 IS NOW DEFINITELY OUT OF THE QUESTION.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PENSION PLANS
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Sent Date: 21-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BONN01304
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770023-0358
Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770131/aaaabayh.tel
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Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 BONN 765, 77 BONN 20954
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3542892
Secure: OPEN
Status: NATIVE
Subject: COALITION AGREES ON ADDITIONAL PENSION LIMITED OFFICIAL USE LIMITED OFFICIAL USE
TAGS: ELAB, SOCI, GE
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/de1461d3-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009